

3RD QUARTER REPORT 2003 SPAREBANKEN SØR

RESULT

The pre-tax result at the end of the third quarter totalled NOK 143.3 million. This was NOK 45.3 million up on the corresponding interim period last year. In relation to average assets, the pre-tax result amounted to 1.13 per cent, as against 0.87 per cent at the same time last year. The improvement in the result is largely due to the increase in securities prices and its favourable impact on the overall value of the Bank's investment portfolio.

NET INTEREST INCOME AND AVERAGE INTEREST MARGIN

Net interest income totalled NOK 330.2 million at the end of the third quarter, after a modest increase compared with the same time last year. In relation to average assets, net interest income amounted to 2.59 per cent, as against 2.87 per cent a year ago. Interest rates fell further during the third quarter and are now at an historically low level. This is having a significantly unfavourable impact on the Bank's basis of overall revenue generation. Margins have been shrinking as the Bank has been unable to lower deposit rates as much as lending rates. In addition, the low level of interest rates triggers reduced revenue generation from that part of the Bank's placements which is funded by equity capital.

OTHER (NON-INTEREST) INCOME

Net other operating income ended up at NOK 80.9 million at the end of the third quarter, as opposed to NOK 22.6 million at the same time last year. In relation to average assets, this involved an increase from 0.20 to 0.63 per cent. The improvement in other income is principally attributable to generally rising prices in the stock markets. Net earnings from banking services showed stable development but were only slightly up on the same time a year ago. Automated services account for most of the payment transmission business, but these services are priced the lowest.

OPERATING COSTS

Costs totalled NOK 232.7 million, up from NOK 216.0 million at the end of the third quarter last year. This is mainly due to the upgrading of certain IT solutions, coupled with an increase in personnel costs. Measured against average assets, however, the cost ratio finished up at 1.82 per cent, down from 1.90 per cent 12 months ago. Although the improvement in this ratio is good news, the Bank's overall level of costs nevertheless remains high. The Board of Directors will give this matter special attention.

CREDIT LOSSES

Net credit losses after the first 9 months of the year amounted to NOK 35.1 million, of which non-specific loss provisions accounted for NOK 9.0 million. Certain parts of local commerce and industry are still struggling, a situation which is reflected in the Bank's accounts. In spite of this, credit losses posted only a moderate increase compared with the corresponding interim period last year. A very significant part of the Bank's total loan losses is related to the corporate banking market. Losses in the retail banking lending area are very modest. The Bank's loan portfolio is assessed at regular intervals in order to identify any credit losses as early as possible.

BALANCE SHEET

At the end of the quarter currently under review, aggregate assets stood at NOK 17.1 billion, up from NOK 15.2 billion at the same time last year. During the last 12-month period, loans expanded by 9.5 per cent. Lending to retail banking- and corporate customers increased by 14.0 and 2.2 per cent respectively. This was in accordance with the Board of Directors' wishes to dampen down corporate lending growth. Deposits were up by 11.2 per cent overall, the retail banking- and corporate sectors improving by 7.4 and 21.1 per cent respectively. The Bank's overall credit risk profile has not changed significantly during the period. Overall deposit coverage is reassuringly high, deposits representing 67.0 per cent of loans, compared with 66.0 per cent at the same time last year. A minimum deposit coverage ratio of 60 per cent has been fixed by the Board of Directors. The Bank's remaining funding requirements are largely covered by new bond issues raised in the market.

CAPITAL ADEQUACY RATIO

At the end of the third quarter, the Bank's capital adequacy ratio amounted to 11.0 per cent. The result so far this year has not been included for capital adequacy computation purposes. The Bank's equity and related capital – consisting of core capital only – totalled NOK 1.3 billion at the end of the quarter.

PROSPECTS FOR THE REMAINDER OF THE YEAR

The result for the first nine months of 2003 is better than last year. As mentioned above, this is primarily ascribable to improved securities prices. However, the performance of the Bank's core banking operations was below target. In order to counteract this trend, the Bank is in the process of implementing risk pricing to a larger extent than previously. Furthermore, the Bank's branch network is being reassessed with a view to bringing about cost reductions. So far this year, three branches have been closed.

Against the background of the currently uncertain times, especially within the commercial and industrial sector, the Bank's loan portfolio will continue to be monitored very closely in order to help keep credit losses at a reasonable level.

Arendal, 22 October 2003

The Board of Directors of Sparebanken Sør

Tom F. Evensen
Chairman

Jostein Dalane
Deputy Chairman

Jan A. Roaldstveit

Laila Øygarden

Sidsel Schwabe-Hansen

Sigmund Pollestad

Kirsti Aatangen

Arnt Haddeland

Kristi Marie Tveit

Hans A. Iversen
Managing Director

Profit and Loss Account

PARENT BANK				GROUP		
Amounts in NOK million				Amounts in NOK million		
30.09.2003	30.09.2002	31.12.2002		30.09.2003	30.09.2002	31.12.2002
844.2	890.1	1 216.6	Interest receivable and similar income	843.1	889.2	1 211.0
514.0	565.1	775.2	Interest payable and similar costs	514.0	565.1	771.1
330.2	325.0	441.4	Net interest- and credit commission income	329.1	324.1	439.9
-0.1	2.7	-2.3	Dividends and other income from securities with variable yield	4.2	6.9	7.1
66.8	67.7	92.8	Commissions receivable and income from banking services	117.1	106.1	139.9
17.3	19.0	25.7	Commissions payable and costs relating to banking services	17.3	19.0	25.7
22.3	-39.0	-34.3	Net value change and gains/losses on f/x and securities	22.3	-39.0	-34.3
9.2	10.2	14.2	Other operating income	9.2	10.2	14.2
80.9	22.6	44.7	Net other operating income	135.5	65.2	101.2
185.0	171.3	240.6	Wages, salaries and general administration costs	231.8	207.0	287.5
12.9	12.9	16.2	Depreciation of fixed- and intangible assets	19.8	19.1	25.3
34.8	31.8	45.9	Other operating costs	34.8	31.8	45.9
232.7	216.0	302.7	Total operating costs	286.4	257.9	358.7
178.4	131.6	183.4	Result before credit losses	178.2	131.4	182.4
35.1	33.6	78.3	Losses on loans, guarantees etc.	35.1	33.6	78.3
143.3	98.0	105.1	Result before taxation cost	143.1	97.8	104.1
43.0	28.5	34.1	Tax payable on ordinary result	43.0	28.5	33.3
100.3	69.5	71.0	Result for the accounting period	100.1	69.3	70.8
			Minority interests	-0.2	-0.2	-0.2
			Result after minority interests	100.3	69.5	71.0

Balance Sheet

PARENT BANK				GROUP		
Amounts in NOK million				Amounts in NOK million		
30.09.2003	30.09.2002	31.12.2002		30.09.2003	30.09.2002	31.12.2002
ASSETS						
56.3	58.8	271.9	Cash-in-hand and claims on central banks	56.3	58.8	271.9
57.2	43.3	67.9	Loans to and claims on credit institutions	36.2	43.3	67.9
14 975.5	13 676.3	13 909.1	Loans to and claims on customers	14 961.1	13 645.1	13 873.8
7.1	7.1	7.1	Repossessed assets	7.1	7.1	7.1
1 600.2	991.8	1 558.7	Certificates, bonds and other interest-bearing securities	1 600.2	991.8	1 558.7
165.4	143.0	143.9	Shares	165.5	143.1	144.0
11.2	8.2	11.2	Equity stakes in associated companies	11.2	8.2	11.2
7.0	18.8	11.3	Equity stakes in Group companies			
14.0	8.6	14.0	Intangible assets	30.9	32.3	35.4
123.0	126.7	114.2	Fixed assets	147.3	153.3	138.4
16.9	26.9	23.2	Other assets	31.9	42.1	38.2
98.8	131.8	125.4	Pre-payments and accrued income	98.8	131.8	125.4
17 132.6	15 241.3	16 257.9	TOTAL ASSETS	17 146.5	15 256.9	16 272.0
LIABILITIES AND EQUITY CAPITAL						
440.2	534.6	420.0	Liabilities to credit institutions	461.2	549.6	420.0
10 199.9	9 176.6	10 363.4	Deposits from and liabilities to customers	10 177.6	9 157.0	10 362.1
4 552.7	3 641.4	3 902.5	Borrowings through the issuance of securities	4 552.7	3 641.4	3 902.5
112.8	102.1	100.4	Other liabilities	126.0	119.5	113.6
355.9	413.4	99.7	Incurred costs and pre-paid income	355.9	413.5	99.7
37.7	39.6	38.8	Provisions for liabilities and costs	37.7	39.5	38.8
15 699.2	13 907.7	14 924.8	Total liabilities	15 711.1	13 920.5	14 936.7
			Minority interests	0.2	1.1	0.4
1 333.1	1 264.1	1 333.1	Equity capital	1 334.9	1 265.8	1 334.9
100.3	69.5		Retained earnings	100.3	69.5	
17 132.6	15 241.3	16 257.9	TOTAL LIABILITIES AND EQUITY CAPITAL	17 146.5	15 256.9	16 272.0

OFF-BALANCE SHEET ACCOUNTING ITEMS

Contingent liabilities

510.8	510.1	514.3	Guarantees	510.8	510.1	514.3
1 225.6	938.0	1 098.9	Book value of assets pledged as collateral security for debt	1 225.6	938.0	1 098.9
3.2	6.9	4.3	Other contingent liabilities	3.2	6.9	4.3
Liabilities:						
4 177.1	2 398.8	2 560.8	Interest rate swaps	4 177.1	2 398.8	2 560.8
0.0	0.0	1 000.0	FRAs	0.0	0.0	1 000.0
172.7	369.8	308.1	Forward exchange contracts - bought	172.7	369.8	308.1
172.7	369.9	308.1	Forward exchange contracts - sold	172.7	369.9	308.1

QUARTERLY RESULTS (Parent Bank)

Amounts in NOK million	3rd q. 2003	2nd q. 2003	1st q. 2003	4th q. 2002	3rd q. 2002
Net interest- and credit commission income	115.0	109.4	105.8	116.4	114
Other operating income	27.3	41.0	12.6	22.1	-2.4
Operating costs	74.5	78.5	79.7	86.7	69.4
Result before credit losses	67.8	71.9	38.7	51.8	42.2
Losses on loans	10.6	11.8	12.7	44.7	11.4
Result before tax	57.2	60.1	26.0	7.1	30.8
Tax payable on ordinary result	17.0	17.3	8.7	5.6	9.5
Result after tax	40.2	42.8	17.3	1.5	21.3

MAIN ACCOUNTING FIGURES AS A PERCENTAGE OF AVERAGE ASSETS (Parent Bank)

	30.09.03	30.09.02	2002
Net interest- and credit commission income	2.59	2.87	2.87
Other operating income	0.63	0.20	0.29
Operating costs	1.82	1.90	1.97
Result before credit losses	1.40	1.17	1.19
Losses on loans	0.27	0.30	0.51
Result before tax	1.13	0.87	0.68
Tax payable on ordinary result	0.34	0.25	0.22
Result after tax	0.79	0.62	0.46

Losses on loans and guarantees	30.09.03	30.09.02	31.12.02
Change in specific loss provisions during the period	-11.7	0.6	17.6
Change in non-specific loss provisions during the period	9.0	13.0	18.0
Period's conf. losses against which spec. loss provs. were made earlier	37.8	19.8	29.1
Period's conf. losses against which no sp. loss provs. was made earlier	1.1	2.3	16.0
Recoveries - relating to earlier confirmed losses - during the period	1.1	2.1	2.4
Credit loss cost during the period	35.1	33.6	78.3

Commitments in default - bad and doubtful debts	30.09.03	30.09.02	31.12.02
Commitments in default	351.9	286.3	358.2
Loss provisions	-81.3	-72.1	-84.2
Net commitments in default	270.6	214.2	274.0
Other bad and doubtful commitments	128.8	55.9	74.1
Loss provisions	-14.3	-18.2	-23.2
Net bad and doubtful commitments	114.5	37.7	50.9

Commitments in default are defined as a customer's total commitments if at least one loan has been in default for 90 days or longer.

Equity and related capital - capital adequacy ratio	30.09.03	30.09.02	31.12.02
Core capital			
Savings Bank's Fund	1 333.1	1 264.1	1 333.1
Intangible assets and over-funded pension liabilities	-38.7	-24.4	-38.7
Equity participations in other financial institutions	-1.0	-3.0	-1.8
Net equity and related capital	1 293.4	1 236.7	1 292.6
Weighted asset calculation basis	11 791.0	11 027.0	11 124.4
Capital adequacy ratio	11.0 %	11.2 %	11.6 %

1)

1) The result so far this year has not been factored into the calculations.

KEY FIGURES 1999 - 2003

Profit and Loss Account	30.09.03	2002	2001	2000	1999
Interest receivable and cr. comm. income	844.2	1 216.6	1163.8	947.6	852.9
Interest costs	514.0	775.2	756.1	577.2	502.3
Net interest- and credit comm. income	330.2	441.4	407.7	370.4	350.6
Other operating income	80.9	44.7	77.3	89.2	104.6
Other operating costs	232.7	302.7	297.2	283.4	275.5
Operating result before credit losses	178.4	183.4	187.8	176.2	179.7
Gains on the sale of long-term shareholdings			35.0	83.4	
Losses on loans and guarantees	35.1	78.3	59.4	35.7	27.7
Result from ordinary operations	143.3	105.1	163.4	223.9	152.0
Tax	43.0	34.1	47.1	60.5	42.4
Result after tax	100.3	71.0	116.3	163.4	109.6

Profit and Loss Account items as a percentage of average assets	30.09.03	2002	2001	2000	1999
Interest receivable and credit comm. Income	6.62 %	7.91 %	8.35 %	7.52 %	7.78 %
Interest costs	4.03 %	5.04 %	5.43 %	4.58 %	4.58 %
Net interest- and credit comm. income	2.59 %	2.87 %	2.92 %	2.94 %	3.20 %
Other operating income	0.63 %	0.29 %	0.55 %	0.71 %	0.95 %
Other operating costs	1.82 %	1.97 %	2.13 %	2.25 %	2.51 %
Operating result before credit losses	1.40 %	1.19 %	1.34 %	1.40 %	1.64 %
Gains on the sale of long-term shareholdings	0.00 %	0.00 %	0.25 %	0.66 %	0.00 %
Losses on loans and guarantees	0.27 %	0.51 %	0.43 %	0.28 %	0.25 %
Result from ordinary operations	1.13 %	0.68 %	1.16 %	1.78 %	1.39 %
Tax	0.34 %	0.22 %	0.34 %	0.48 %	0.39 %
Result after tax	0.79 %	0.46 %	0.82 %	1.30 %	1.00 %
Average assets	17 046.1	15 384.0	13 936.6	12 595.0	10 967.0
Return on equity capital	10.02 %	5.62 %	10.10 %	15.28 %	11.69 %
Costs as a % of income excluding securities	59.45 %	57.60 %	59.82 %	61.48 %	64.17 %

From the Balance Sheet	30.09.03	2002	2001	2000	1999
Assets	17 132.6	16 257.9	14 401.6	13 255.5	11 893.6
Gross loans	15 229.2	14 165.9	12 888.3	11 550.5	10 186.3
Deposits from customers	10 199.9	10 363.4	9 188.5	9 147.4	7 527.0
Deposits as a percentage of gross loans	67.0 %	73.2 %	71.3 %	79.2 %	73.9 %
Equity and related capital	1 293.4	1 292.6	1 212.4	1 086.0	909.6
Capital adequacy ratio	11.0 %	11.6 %	12.0 %	11.6 %	11.3 %

PRESS RELEASE

Interim accounts for the first 9 months of 2003

Sparebanken Sør earned NOK 143 million before tax for the first 9 months of 2003, NOK 45 million up on the corresponding interim period last year. The improvement is primarily ascribable to the increase in securities prices. A decision to shrink overall manning levels and reduce the number of branches will bring about lower overall costs in the near future.

The Bank's pre-tax result totalled NOK 143 million, equivalent to 1.13 per cent of average assets. The comparable figures at the same time last year were NOK 98 million and 0.87 per cent respectively. The improvement is principally attributable to the increase in securities prices. The result from ordinary banking operations was below the Bank's targeted level. Cost reductions have been agreed in order to ensure satisfactory revenue generation. It has been agreed to shrink overall manning levels by 10 per cent, equivalent to 35 man-years, and to reduce the number of branches from 37 to 29.

Net interest- and credit commission income totalled NOK 330 million, after a modest increase compared with the same time last year. The overall interest margin in relation to average assets has narrowed from 2.87 to 2.59 per cent. We shall be paying much more attention to the pricing of different lending risks – this will help maintain our average interest margin.

Other (non-interest) operating income totalled NOK 81 million, as against NOK 23 million 12 months ago. The improvement is largely due to a higher overall return on securities in the Bank's trading portfolio. Operating costs were up from NOK 216 million to NOK 233 million. In spite of the cost increase in cash terms being too high, costs in relation to average assets improved from 1.90 to 1.82 per cent. Net loan losses amounting to NOK 35 million were charged to the profit and loss account, non-specific loss provisions accounting for NOK 9 million. In relation to average assets, the ratio for net loan losses was trimmed from 0.30 to 0.27 per cent.

During the last 12 months the Bank's assets expanded by 12.4 per cent to NOK 17.1 billion. Loans and deposits grew by 9.5 and 11.2 per cent respectively during the same period. Retail banking loans were up by 14.0 per cent, corporate lending by 2.2 per cent. This was in accordance with the Board of Directors' wishes to dampen down the growth in corporate borrowing. The overall deposit ratio finished up at 67.0 per cent.

At the end of the third quarter, the capital adequacy ratio amounted to 11.0 per cent. The Bank's equity and related capital consists of retained earnings only, totalling NOK 1.3 billion. The result so far this year has not been factored into the capital adequacy calculations.

The adjustment in terms of overall manning levels and distribution network should be completed by the end of 2004. The agreed measures will bring about annual cost savings of some NOK 25 million, with full effect from 2005.

Arendal, 27 October 2003
Sparebanken Sør